

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

RATE ADJUSTMENT DUE TO EXTRAORDINARY  
OR EXCEPTIONAL CIRCUMSTANCES

Docket No. R2013-11

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO NOTICE OF INQUIRY**  
(November 19, 2014)

On November 5, 2014, the Commission issued a Notice of Inquiry (NOI) on the topic of an appropriate methodology for handling the issue of Forever stamps when calculating exigent surcharge revenue. Calculating exigent surcharge revenue is an exercise intended exclusively for the purpose of estimating when the Postal Service is likely to reach the dollar limit set by the Commission for the recovery of additional revenue from the exigent surcharge, to thus indicate when the exigent surcharge should be terminated. The NOI describes the methodology previously proposed by the Postal Service, and offers a different methodology to achieve the same objective. The NOI solicits comments on the alternative methodology, and the Postal Service hereby responds.

As correctly described in the NOI, the issue arises because of “Forever Stamps that were purchased prior to the exigent surcharge taking effect, but used during the surcharge collection period.” In normal postal accounting, the revenue from letters bearing those stamps is accrued when they are used (i.e., during the surcharge collection period), at the then-current rate (i.e., the rate including the exigent surcharge), but the Postal Service in fact would have received no additional revenue from the exigent surcharge implemented after those stamps were purchased. Therefore, some

methodology is required to exclude the apparent surcharge revenue associated with those letters from calculation of the aggregate exigent surcharge revenue.

The Postal Service's methodology and the NOI methodology adopt two different approaches to this problem. The Postal Service approach involves a two-step process, in which the first step is to start with normal postal service accounting, and the second step is then to include an adjustment to offset the implicit overstatement of exigent surcharge revenue. The NOI approach instead focuses on the category where the overwhelming majority of the impact of this situation will emerge (stamped First-Class Mail single piece letters), and for that category alone, substitutes a more direct calculation of exigent surcharge revenue. The First-Class Mail single-piece stamped letter volume is removed from the billing determinants, so that no surcharge revenue is included from that portion of billing determinant volume. Instead, the surcharge revenue is calculated directly from stamp sales during the exigent period, obviating the need for any second-step adjustment such as that employed in the Postal Service methodology.

As the NOI itself appears to indicate, actual implementation of either approach is not achieved without difficulties. In a sense, neither approach is entirely “complete.”<sup>1</sup> Yet it is important to recognize that either would merely be part of a broader estimation process, which itself will be inherently limited in terms of achieving technical perfection. The problem is a mismatch between normal postal accounting and the unique challenges of attempting to keep a running tab of exigent surcharge revenue, a task required by Order No. 1926 but otherwise unprecedented in postal finance.

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<sup>1</sup> For example, the “overstatement” that the NOI acknowledges (page 3) is built into its proposed methodology, derived from the fact that Forever stamps are also used on pieces other than First-Class Mail letters, could be substantial. Almost \$800,000 in stamps were used on First-Class Mail single-piece flats in FY14Q3 alone, although the portion of that postage coming specifically from Forever stamps is not known.

The fundamental point to keep in mind is that normal revenue reporting procedures will clearly lead to an overstatement of exigent surcharge revenue, and therefore some alteration is essential. Although the Postal Service prefers the approach it initially offered, the approach embodied in the NOI has some merit.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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